The decade of eighties witnessed several developing countries caught up with difficulties in servicing their debts owed to the private commercial banks. This culminated into a global debt crisis. A sovereign debtor borrows from external sources to finance its developmental needs and, private financial intermediaries extend their loanable funds to the borrowing country with an objective of realisation of profits which consist of the debtor's interest payments on the borrowed sum. "Debt crisis" occurs when debtor finds it difficult to meet its stipulated debt payment obligations out of its own resources. Creditors incur loss due to debtor's non-payment. Debtor loses its access to the external finance, needed to meet its developmental ends. In a world of uncertainty, creditors generally make an assessment of the debtor's capacity to pay in future and if such capacity is predicted to lie below the future debt payment obligations then creditors may not extend new money at present. Debtors are, therefore, forced to rely on their own resources, mainly the export earnings, to meet its debt services while voluntary flows of capital to them remain frozen. Creditors' loss has far reaching implications for the financial system if it affects a large number of intermediaries because of their inter-institutional transactions. When creditors incur losses investors lose confidence in the creditor institutions which jeopardise further the normal activities of financial intermedation.
Third world debt crisis posed a systemic threat of collapse to the private financial intermediaries. Strategies were adopted by the major creditor governments and the multilateral financial institutes to thwart the threat of impending collapse of the financial system. Debt management policies, which evolved were based upon the strategies to prevent the debt collapse, and hence were influenced by the interests of the active partners of private finance including the private commercial banks in the major creditor countries. Debt collapse of the financial system was averted by the timely action of the creditor governments and by the end of eighties third world debt exposures ceased to constitute a systemic threat to the banks. But a large number of debt-distressed third world economies are still foundering on their unmanageable debt burdens, and as a result, viable growth process therein still remains elusive.

External debt is a manifestation of attempts at external resource mobilisation through borrowing. It constitutes a means of bridging the resource gap of the debtor economy. The concept of dual resource gap - between domestic savings and investment requirements and between export earnings and import needs was a central issue of development economics in the post-war era. Debates among academics and policy-makers have focused on the means to bridge the external resource gaps of the developing countries - whether by means of enhanced export earnings and/or by means of larger flows of external financial resources from the developed world. Way back in 1964 UNCTAD I urged certain changes in the international economic framework that would enable the
third world to bridge their resource gaps either by means of enhanced export earnings or by enhanced flows of external funds from the developed world. The need was felt for various kinds of external resource flows which are additional to export earnings such as grants, foreign direct investment and external borrowing, provided of course that their terms and conditions are appropriate for the receiving countries.

The pertinent question is why instead of inducing growth and fostering economic development external debt process in most of the developing region has become a major problem, in effect hindering their developmental efforts for which the external funds were initially meant for? Why for the majority of the third world economies access to the voluntary flows of private capital could not be restored despite the targeted goals of the debt management policies? Why a viable process of growth could not be generated in the debtor economies even after the debt management policies were implemented and the debtor governments pursued rigorous internal adjustment efforts?

The answer to these questions need to be set in the broader context of global financial developments during eighties. Private capital markets tend to be characterised by successive periods of over-lending and under-lending, often resulting in costly financial crises. Way back in 1873, Bagheot and, more recently, Kindleberger have analysed the phenomena of expansion during boom and contraction of lending during slow-down of economic
activities. During seventies private flows of international credit went up significantly to the third world economies which provided a ready market for re-cycling the OPEC surpluses deposited with the banks. The decade of eighties is the mirror image of seventies when international credit flows in the direction of the developing region dried up.

A link between lending boom in seventies and the debt crisis in eighties is established by the pattern of increased spending in developing economies during seventies by the ready availability of funds from private capital markets. Both the demand-side and supply-side effects of such spending boom tend to indicate that there spendings, either in short term consumption (demand-side) or in inadequate and inefficient capacity creation (supply-side), mismatched the long run investment requirements of the debtor economy to meet their debt obligations. Debt crisis occurred because spendings grew faster than the short term output growth. Investment and output growth fell after the crisis set in. Debt services rose and the rate of growth fell even more. There is no doubt that spending boom in debtor economies, unless backed by adequate and efficient investment and production of enough tradeables, is bound to lead to debt crisis after a certain point of time. However, the above

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theory of internal spending boom fails to interpret the stagnating output growth in debtor economies along with its continued inaccess to the international capital market even when the debtor countries have undertaken internal adjustment efforts to cure the "maladies" caused by increased internal spending during seventies.

Financial intermediation has to dwell on the creation of debts by other sectors in the interest of the realisation of profits for the financial sector. A "debt explosion" occurs when financial activities are not backed by real transactions in the economy, adversely affecting the profitability of the financial intermediaries. During eighties, major creditor economies experienced most unimpressive record of growth in the post-war era. This along with de-regulation of finance at home led to rise in intense competition among the financial intermediaries including banks and non-bank institutes and, also increased their tendencies to diversify risks. Third world debt management policies aided the banks in diversifying their developing country loan portfolios and simultaneously banks were increasingly involved in non-bank activities. As a consequence gross as well as net credit flows in the direction of the third world tapered off. Debtors were forced to rely on their internal adjustment efforts to generate resources for meeting their debt services. The net outcome of the entire process turns out to be continuous outward transfers of financial resources from the debtor economies to meet their debt services, obfuscating the process of real economic recovery therein.
At the heart of the problem of growth recovery in the third world debtor nations lies the phenomena of net outward transfers of financial resources from these economies during the eighties, reflecting simultaneously the pre-dominance of financial interests of the major creditor countries over their other real economic (including trade-creating) interests. Increased output growth and productive employment in debtor economies could have provided an expanded market area to the creditor economies, thus alleviating the long persisting recession experienced in the post war era.

The notion of "net transfer of financial resources" helps us to critically appraise the third world debt management policies, reflecting the creditors' interests vis-a-vis "third party" role of the creditor governments and the multilateral financial institutes in dealing with the third world debt exposures of the private commercial banks. Also these reveal the effect of conditionality-led internal adjustment efforts in the debtor economies. The concept of "net transfer of financial resources", defined as net flows in the capital account minus interest payments, will throw some light upon the actual dynamics of the debt-distressed retardation of the developing economies during eighties which was effected by the conditionality-led internal adjustment efforts. While recognising the need for an appropriate demand-generating domestic adjustment efforts in debtor economies the present study tries to indicate the need for creation of a viable external environment for the growth recovery in the entire developing region which may, in turn, provide a
lasting solution to stagnating output growth and employment in the developed region of the world.

A debt crisis was triggered off in August 1982 by Mexico announcing short term moratorium on its debt payments to the private creditors. By the end of that year several major debtor countries of Latin America were plunged into deep crisis with respect to their external debt payments. An understanding of the process of net transfers of financial resources from debtor to creditor economies warrants an in depth analysis of the different debt management strategies, both in theory and in practice. A background history of debt acquisition process in the developing economies during seventies, is offered in chapter 2, will provide us insights into crisis the nature of which can be explored by studying the transfer problem vis-a-vis different debt management strategies. The chapter, dealing with the debt build up process in the developing countries during seventies, attempts to identify the causal factors behind the emergence of the debt crisis while linking them up with the theoretical issues occupying the central place in the third world debt management strategies.

The major objective of the several debt management strategies was to ensure an immediate aversion of default risks. Achievement of this objective warranted the success of the international creditor community in ensuring that debt payments were made by the debtor nations in due time. As a result continuous outflow of financial resources from the indebted
countries was effected in the form of interest payments and principal repayments while new flows to them were terminated. It created problems for these countries in maintaining their economic growth and fostering economic development. An analytical basis for this transfer problem which surfaced the debtor developing world following the outbreak of the debt crisis in the early eighties is offered in chapter 3 where an attempt has been made to model the debt dynamics using the concept of net transfer of financial resources. An analytical basis of the conditionality-led domestic adjustment efforts, resulting in such transfers, has been offered along with.

Chapter 4 provides an outline and critical appraisal of the theory of the optimal borrowing under default risks dwelling on the nature and suggested solutions of the third world debt problem. This will provide us the actual theoretical underpinnings of the different debt management strategies. Based upon certain underlying micro-theoretic maximising postulates, these models attempt to set up optimal credit limits to individual borrowers in an uncertain world so that debt defaults can be averted. In doing so, they distinguish between liquidity, solvency and default risks in the debt process of an individual borrower. These issues along with other broader conceptual issues involved in the debt literature of the eighties has been dwelt at length in this chapter.

Chapters 5 and 6 discuss in detail the process of debt management in practice. Chapter 5 takes up the discussion of
commercial bank debt restructuring efforts while chapter 6 deals with the official debt restructuring efforts since the outbreak of the debt crisis in early eighties.

Credit-boom in seventies was led by the rapid expansion of credit lines by the commercial banks to the developing region. Similarly, credit-contraction in eighties is often associated with the retrenching of the banks' lending activities from the developing economies. An evaluation of the commercial bank debt restructuring efforts is necessary to gauge the actual impacts of the third world debt management policies. Evidently the latter were basically concerned with the protection of interests of the commercial banks in the face of the latter's loan exposures in the developing world. An attempt has been made in chapter 5 to indicate how different debt management policies bailed the banks out of the debt crisis at the cost of real economic growth in the debtor economies.

The dominant interests of private finance, looking for a shield of protection from the potential threat of debt defaults during the tumultuous years of the debt crisis, prompted the official creditors - the major creditor governments and the multilateral financial institutes - to take up the crucial third party role in preventing the debt collapse of the financial system. A third party plays an important role in compelling the debtor countries to adhere to rigorous domestic adjustment efforts, in implementing various debt management policies, in monitoring the debtor economies and, in acting as guarantor to
private creditors. Chapter 6 offers a critical appraisal of this official role in the third world debt management policies.

The continuous net transfers of financial resources from the debtor countries on account of debt payments to the foreign creditors have put them in a tight situation in the context of prevailing credit restraints. Despite their internal adjustment efforts and implementation of several debt reduction measures, about one third of developing countries is still encountering severe problem in meeting their debt obligations, indicated by the growing arrears on their scheduled debt services. Voluntary flows of private capital to these countries could not be restored and their external viability still remains elusive. For them attaining creditworthiness through domestic adjustment efforts alone means remaining trapped into vicious circle of low output growth and low capital inflows. An attempt has been made in chapter 7 to explore analytically the "strain" caused by "sustainable" debt process under credit constraints on these economies, using the concept of net transfer of financial resources. An empirical analysis of the actual conditions of the debtor economies during eighties has been offered using the analytical tools developed here which indicates that the debtor developing countries were "overstrained" by their debt burdens and adjustment efforts. Our analysis points out the need for a large scale debt reduction in these countries.

The concluding chapter ties up the major arguments of the thesis, emphasising the need for adoption of a strategy which
will hit the large debt overhang of the several developing nations en masse, not in pieces, by providing sufficient debt reduction to the severely indebted countries. A need for reorientation of the conditionality-led domestic adjustment efforts in debtor economies has also been spelt out.